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June 1, 2007

Reply to: Columbia  
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RECEIVED  
JUN - 1 PM 3:59  
PUBLIC SERVICE  
COMMISSION

**Via Hand Delivery**

The Honorable Charles L. A. Terreni  
Chief Clerk and Administrator  
The Public Service Commission of S.C.  
P. O. Drawer 11649  
Columbia, S.C. 29211

**RE: Docket No. 2006-37-C/Petition of the Office of Regulatory Staff for a Rule-Making Proceeding to Examine the Requirements and Standards to Be Used by the Commission When Evaluating Applications for Eligible Telecommunications Carrier ("ETC") Status and When Making Annual Certification of ETC Compliance to the Federal Communications Commission**

Dear Mr. Terreni:

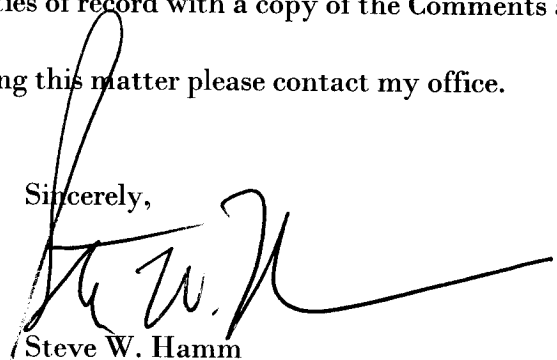
Enclosed for filing are an original and one copy of Verizon South Inc.'s ("Verizon") Comments in response to the Commission's March 26, 2007 notice for interested persons to submit written comments regarding a proposed regulation concerning designating of ETCs.

By copy of this letter, I am serving all parties of record with a copy of the Comments as indicated on the attached Certificate of Service.

If you should have any questions concerning this matter please contact my office.

With kind personal regards, I am

Sincerely,



Steve W. Hamm  
C. Jo Anne Wessinger Hill

Enclosures

cc: All Parties of Record

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2006-37-C**

RECEIVED  
2007 JUN - 1 PM 3:59  
SC PUBLIC SERVICE  
COMMISSION

**IN RE:**

Petition of the ORS for a Rule-Making Proceeding )  
to Examine the Requirements and Standards )  
to Be Used by the Commission When Evaluating )  
Applications for ETC Status and When Making )  
Annual Certification of ETC Compliance to )  
the Federal Communications Commission )

**CERTIFICATE OF SERVICE**

This is to certify that I have caused to be served this day, June 1, 2007, one (1) copy of Verizon's Comments in the above referenced docket by placing a copy of same in the care and custody of the United States Postal Service, first class postage prepaid to the following Parties of Record:

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Amber Landman

June 1, 2007  
Columbia, South Carolina

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2006-37-C**

RECEIVED  
2007 JUN - 1 PM 4:00  
SC PUBLIC SERVICE  
COMMISSION

**IN RE:**

**Petition of the Office of Regulatory Staff for  
a Rule-Making Proceeding to Examine the  
Requirements and Standards to Be Used by  
the Commission When Evaluating Applications  
for Eligible Telecommunications Carrier (ETC)  
Status and When Making Annual Certification  
of ETC Compliance to the Federal  
Communications Commission**

**COMMENTS OF VERIZON SOUTH INC.**

**VERIZON'S COMMENTS CONCERNING PROPOSED ETC REGULATION**

In its March 26, 2007 submission to the South Carolina State Register, the Commission gave notice that interested persons could submit written comments regarding a proposed regulation concerning Designating of Eligible Telecommunications Carriers, which would be codified as 26 S.C. Code Ann. Regs. 103-690 (the "Proposed Regulation"). Pursuant to that notice, Verizon South Inc. ("Verizon") files these comments.

The current version of the Proposed Regulation reflects substantial improvements to the initial draft. First, the Proposed Regulation limits the application of ETC eligibility requirements to new applicants instead of having them apply to all ETCs, including incumbent local exchange carriers ("incumbent LECs") that have been ETCs for many years now. Second, the Proposed Regulation omits the annual reporting requirements so they can be given further consideration, an approach that Verizon supports because of its concern that many of these requirements are unnecessary and burdensome for ETCs that are incumbent LECs. Third, the Proposed Regulation has been modified to provide that under the public interest standard in section 103-690.C(b), the Commission will not designate an ETC service area that is smaller

than an entire wire center. This change represents a substantial improvement because it prevents ETCs from attempting to serve only the high density portions of wire centers, which would encourage carriers to apply for ETC status solely in the hopes of obtaining USF subsidies from other carriers, but without producing any gains in universal service.

Despite these improvements, the Proposed Regulation has one significant flaw that has not been corrected: it fails to establish presumptive limits on the number of ETCs in rural and non-rural study areas, which may lead to further, unwarranted growth of the federal universal service fund ("USF"). The USF has grown from \$1.8 billion in 1996 to \$7.2 billion today, and consumers have paid for these increases through increasing surcharges on their bills. High-cost support to competitive eligible telecommunications carriers ("CETCs") alone has grown from about \$15 million in 2001 to about \$1 billion in 2006. Left unchecked, it will skyrocket to \$2.5 billion by 2009, with no assurance of a corresponding increase in service availability. On May 1, 2007, the Federal-State Joint Board on Universal Service took an important step to address this problem, recommending that the FCC impose an interim, emergency cap on the amount of high-cost support that CETCs may receive for each state based on the average level of CETC support distributed in that state in 2006.<sup>1</sup> The FCC soon afterward issued a Notice of Proposed Rulemaking on the joint-board's recommendation.<sup>2</sup>

Verizon proposes that the Commission also take steps to prevent undue expansion of the USF. First, the Commission should revise the Proposed Regulation to adopt a presumption that there should be only one ETC in a rural study area.<sup>3</sup> This limit would avoid excessive demands

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<sup>1</sup> *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Recommended Decision, FCC 07J-1 (Fed.-State J. Bd., rel. May 1, 2007).

<sup>2</sup> *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-4, Notice of Proposed Rulemaking (rel. May 14, 2007).

<sup>3</sup> Application of this restriction could be revisited as appropriate if the FCC implemented broader high cost fund reforms and transitioned to a new subsidy distribution system including reverse auctions and other competitive

on the universal service fund and is permitted by Section 214(e) of the Communications Act, which allows, but does not require, more than one ETC in a rural study area. Second, in non-rural study areas, the Commission should adopt a presumption that there should only be two ETCs, which would comply with the requirement in Section 214(e)(2) that “[u]pon request and consistent with the public interest, convenience, and necessity,” the Commission designate more than one qualifying ETC in such areas. ETCs should not be allowed to create or maintain wholly duplicative networks founded on the possibility of USF support, at a time when USF support mechanisms are already strained and the high cost fund is growing at an alarming rate.

For the foregoing reasons, the Proposed Regulation should be revised to impose these upper limits on the number of ETCs designated in rural and non-rural study areas.

Respectfully submitted on June 1, 2007.

By: 

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bidding mechanisms.